

UK Retail Monitor Q2 2017



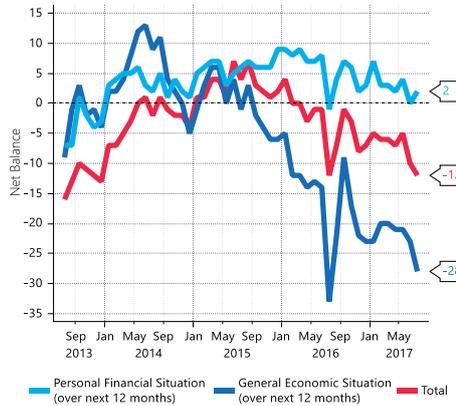
KEY HEADLINES

- The farce that was the General Election in June did the retail sector few favours.
- If there were two generic items at the top of UK Retail's wish list going into the Election they were greater clarity and continued recovery in the value of Sterling. A hung Parliament has achieved neither of these things – in fact, already murky waters have been obscured even further by a result that gives no overall control and a protracted period of political uncertainty
- At the same time, economists and the media alike seem obsessed with a single metric as an all-encompassing barometer of the retail market – the gap between RPI and wage inflation. In reality, there is limited evidence that this is in any way filtering through to actual consumer behaviour.
- Boosted by a very strong performance in June, year-on-year retail sales values grew by 5.2% in Q2. Stripping out inflation, volumes were still up 2.7% over the same period. However, there is increasing divergence between retail sub-sectors. Food is improving, but consumer demand for bigger ticket items is inevitably softening.

“The actual retail statistics are still at odds with the media narrative. Whatever economic logic is applied, the fact remains the UK consumer is continuing to spend.”

Consumer Confidence

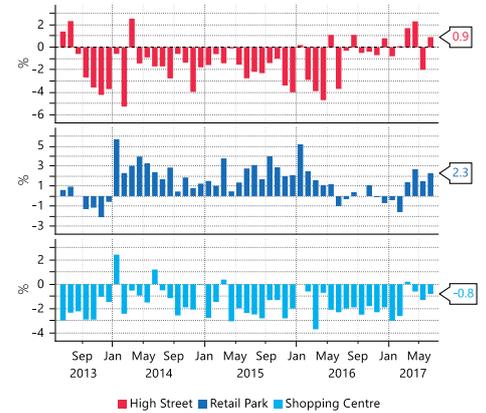
Confidence dipped in the wake of the General Election



Source: GfK

Retail Footfall

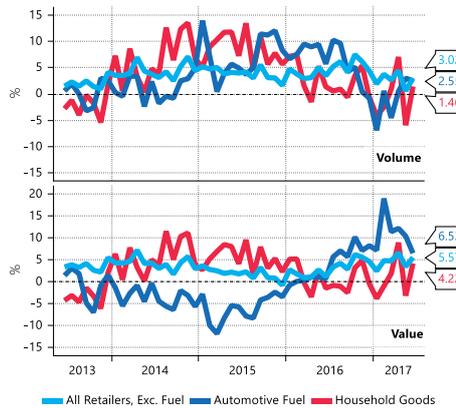
Annual % Change to Q2 2017



Source: BRC

ONS Retail Sales

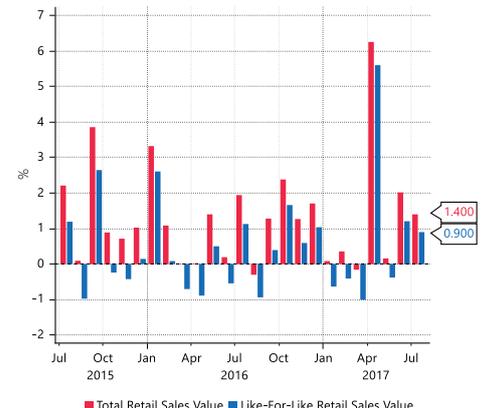
Annual % Change to Q2 2017



Source: ONS

BRC Retail Sales

Annual % Change to Q2 2017



Source: BRC

Average Weekly Earnings Growth vs Inflation

Annual % Change to Q2 2017



Source: BRC

Online Retail Spend Index

Online sales do not necessarily supplant the high street



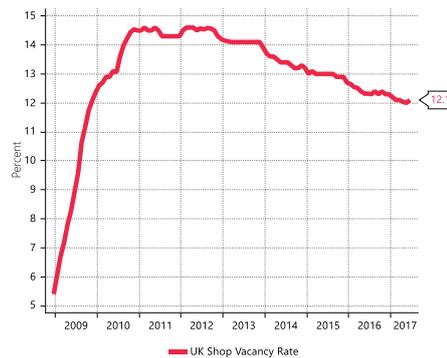
Source: ONS

KEY HEADLINES

- The three key headwinds facing UK retailers in 2017 (higher input costs, business rate revaluations and National Living Wage increases) are now fully in force. However, this has not massively destabilised retail occupier markets, but has reinforced a mood of general caution.
- There were no retailer administrations of any note in Q2, although there has been a discernible uptick in cost-cutting activity among certain occupiers. A number of the large retailers, particularly the grocers, have embarked upon headcount reviews.
- On a positive note, much of the post-Brexit inflation is starting to annualise, so will increasingly drop out of the equation going forward. This is already apparent in RPI figures released since June.
- However, retail sales growth will be more challenging in the second half of the year due to strong comparables in H2 2016. In Q3 2016, retail sales values and volumes were up 3.4% and 5.1% respectively, accelerating to 5.6% and 6.2% in Q4.
- The likely deceleration in retail sales growth in the second half of the year is as much mathematical as it is a reflection of a consumer squeeze.

Retail Vacancy Rate

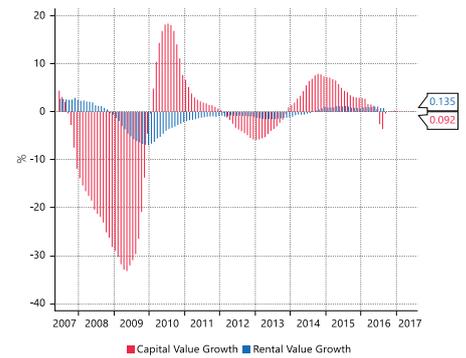
Retail vacancy rates are stabilising at just over the 12% mark



Source: Local Data Company

All Retail - Rental and Capital Value Growth

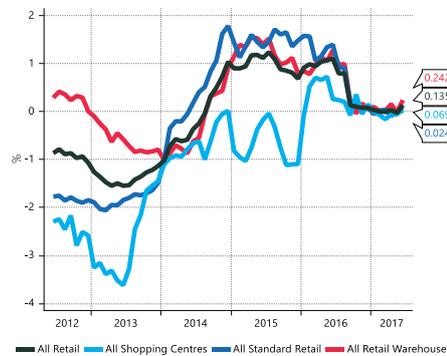
Q-on-q capital value growth for the retail sector as a whole was 0.37% in Q2, led by SE High Streets (1.23%)



Source: MSCI

Retail Rental Growth by sub-sector

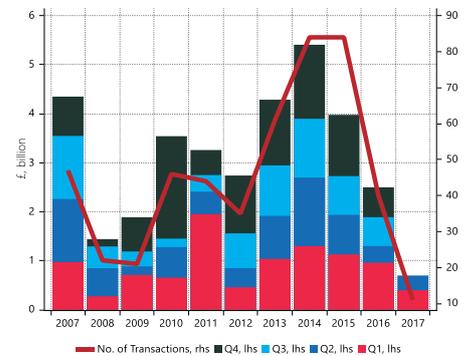
Rental growth remains pedestrian. Q-on-q ERV growth for all retail in Q2 was just 0.32%



Source: MSCI

Shopping Centre Transactions

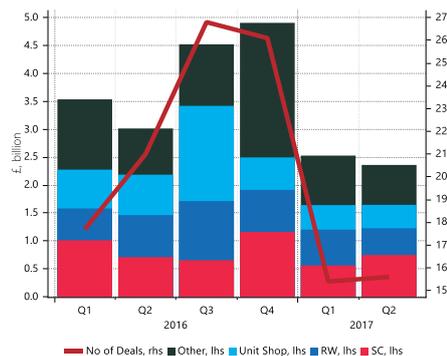
Volumes were exceptionally low in H1 (<£720m), reflecting lack of investment demand



Source: Knight Frank Research

Investment Volumes by sub-sector

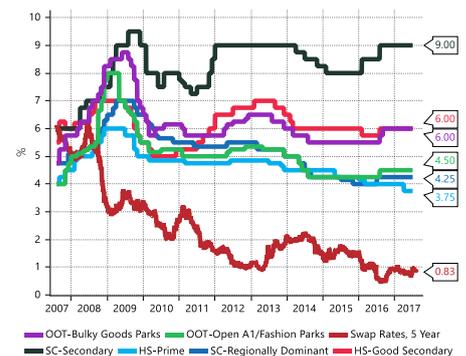
Overall retail volumes were down 22% year-on-year in Q2 to £2.4bn, with 54 fewer reported deals.



Source: Property Data

Yields

Yields are generally stable across the retail sector, with slight (-25bps) compression in Prime High Street shops.



Source: Knight Frank Research



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